

**PROFIT PLANNING IN COMMERCIAL BANK OF NEPAL:
A STUDY OF NEPAL INVESTMENT BANK LTD**

By

Nirjala Adhikari

Pashupati Multiple Campus

TU Regd. No: 7-2-278-614-2003

Campus Roll No: 39/063

A Thesis Submitted to:

Office of the Dean

Faculty of Management

Tribhuvan University

**in the partial fulfillment of the requirement for the degree of
Master of Business Studies (MBS)**

Kathmandu

August, 2010

RECOMMENDATION

This is to certify that the Thesis

Submitted by:

NIRJALA ADHIKARI

Entitled:

PROFIT PLANNING IN COMMERCIAL BANK OF NEPAL:

A STUDY OF NEPAL INVESTMENT BANK LTD

*has been prepared as approved by this Department in the prescribed format of
the Faculty of Management. This thesis is forwarded for examination.*

.....

.....

.....

Dilli Ram Bhandari

Gyan Mani Adhikari

Bishnu Prasad Panta

(Thesis Supervisor)

(Head of Research Department)

(Campus Chief)

VIVA-VOCE SHEET

We have conducted the viva-voce of the thesis presented

by

NIRJALA ADHIKARI

Entitled:

PROFIT PLANNING IN COMMERCIAL BANK OF NEPAL:

A STUDY OF NEPAL INVESTMENT BANK LTD

and found the thesis to be the original work of the student and written according to the prescribed format. We recommend the thesis to be accepted as partial fulfillment of the requirement for the Degree of

Master of Business Studies (MBS)

Viva-Voce Committee

Head, Research Department

Member (Thesis Supervisor)

Member (External Expert)

TRIBHUVAN UNIVERSITY

Faculty of Management

Pashupati Multiple Campus

DECLARATION

I hereby declare that the work reported in this thesis entitled **PROFIT PLANNING IN COMMERCIAL BANK OF NEPAL: A STUDY OF NEPAL INVESTMENT BANK LTD** submitted to Office of the Dean, Faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfillment of the requirement for the Degree of Master of Business Studies (MBS) under the supervision of **Dilli Ram Bhandari, Lecturer** of Pashupati Multiple Campus, Kathmandu.

.....

Nirjala Adhikari

T.U. Regd. No. : 7-2-278-614-2003

Campus Roll No. : 39/063

Second Year Symbol No.: 4064

ACKNOWLEDGEMENT

Now, I am at the end of my journey of MBS thesis writing. I think it is time to rejoice this experience and say a special thanks to my respected personalities who really supported me in this research doing process. First and foremost, my deep gratitude goes to my supervisor Mr Dilli Ram Bhandari who continuously guided and encouraged my study. I would like to thank him for his patience and availability which enabled my thoughts to mature and grow, and ideas to crystallize. I would like to thank Mr. Gyan Mani Adhikari, coordinator for his valuable contribution during my MBS study as well as this research process to give right shape to this dissertation.

Actually, this study has been conducted with the aim to explore how the profit planning has been practiced in Nepalese commercial bank with the reference of Nepal Investment Bank Ltd. I am also much grateful to Mr Sachin Tibrewal, head accounting and budgeting and overall bank family who provided me valuable reports and data. I would like to thanks to my college friends who helped me in every steps during MBS period. I would like thanks my office family who helped and courage me to study.

I would much grateful to my parents and brother who invested a lot of time and money for my study as well as encouraged me to come in this status of my life. At last but not least I am very much grateful to my husband Mr. Hari Dhakal who supported me in this research doing process. I know without his help I couldn't do my research.

Nirjala Adhikari

TABLE OF CONTENTS

Recommendation
Viva Voce Sheet
Declaration
Acknowledgement
Table of Content
List of Tables
List of Figures
Abbreviations

	Page No.
CHAPTER - I	
INTRODUCTION	
1.1 General Background	1
1.2 Introduction to Commercial Banks	2
1.3 Commercial Banks in Nepal	3
1.4 Statement of the Problem	3
1.5 Objectives of the Study	5
1.6 Significance of the Study	5
1.7 Limitations of the Study	5
1.8 Scheme of the Report	6
CHAPTER II	
LITERATURE REVIEW	
2.1 Development of Banks in Nepal	7
2.2 Commercial Banks	9
2.3 Financial Institutions	10
2.4 An Overview of Nepal Investment Bank	11
2.4.1 Vision of the Bank	12
2.4.2 Mission Statement of the Bank	12
2.4.3 Strategic Objectives of the Bank (NIBL)	12
2.4.4 Core Values and Ethical Principles of the Bank	13
2.4.5 Basel II Criteria maintain by the Bank	14
2.4.6 Corporate Governance in NIBL	15
2.4.7 NIBL in Corporate Social Responsibility	15

2.5	Major Financial Policies of Nepal	16
2.6	Defining Profit	19
2.7	Concept of Planning	20
2.8	Profit Planning	22
2.8.1	Uses of Profit Planning	23
2.8.2	Process of Profit Planning and Control	24
2.8.3	Application of Profit Planning in Banking Sector	29
2.8.4	Application of Profit Planning in Non-manufacturing Enterprises	29
2.8.5	Benefits of Profit Planning	29
2.8.6	Limitations of Profit Planning	32
2.9	Budgeting: a Tool of Profit Planning	32
2.9.1	Different Approaches of Budgeting	33
2.9.2	Principles of Budgeting or Control of Budgeting	34
2.9.3	Classification of Budgeting	36
2.9.4	Budget Formulation	38
2.9.5	Advantages of Budgeting	39
2.9.6	Disadvantages / Limitations of Budgeting	40
2.10	Activities of Commercial Bank	40
2.10.1	Mobilization of Resources	41
2.10.2	Deployment of Resources	42
2.11	Interest Spread	43
2.12	Loan Loss Provision	44
2.13	Other Income Generating Activities of the Bank	44
2.13.1	Letter of Credit (LC)	45
2.14	Concept of Burden	46
2.15	Review of Related Research	46
2.16	Research Gap	52
CHAPTER - III RESEARCH METHODOLOGY		
3.1	Research Design	54
3.2	Research Approach	54

3.3 Sources of Data	55
3.4 Research Variables	55
3.5 Tools for Data Analysis	55
3.5.1 The Mean	55
3.5.2 The Standard Deviation	55
3.5.3 Variance	56
3.5.4 Karl Pearson's Correlation	56
3.5.5 Cost Volume Profit Analysis	56
3.5.6 Ratio Analysis	57
3.5.7 Cash Flow	57

CHAPTER - IV PRESENTATION AND ANALYSIS OF DATA

4.1 Strategic Profit Plan of NIBL	58
4.2 Resource Mobilization Plan of NIBL	58
4.2.1 Deposits Collection	60
4.3 Resources Deployment Plan	66
4.3.1 Deployment Status of LABP	68
4.3.2 Actual Deposit vs. Actual LABP Status	72
4.3.3 Resources Deployment in Other Portfolio than LABP (NLABP)	75
4.4 Plan for Non funded Business Activities	76
4.4.1 Letter of Credit	77
4.4.2 Bank Guarantee	78
4.5 Revenue Planning	80
4.5.1 Interest Income	81
4.5.2 Income other than Interest Income	83
4.6 Expenditure Planning of the Bank	83
4.6.1 Interest Expenses	85
4.6.2 Interest Spread of the Bank	87
4.7 Net Burden of the Bank	89
4.8 Net Profit Earned by the Bank	90
4.9 Performance Evaluation of NIBL	91

4.9.1 Ratio Analysis	92
4.9.1.1 Analyzing Liquidity	92
4.9.1.2 Activity Ratio	93
4.9.1.3 Capital Structure Ratio (Leverage Ratio)	93
4.9.1.4 Debt to Shareholders Equity	94
4.9.1.5 Debt to Total Capital Ratio	94
4.9.1.6 Profitability Ratio	95
4.9.2 Cost volume Profit Analysis	96
4.10 Cash Flow Analysis	98

CHAPTER - V SUMMARY OF FINDINGS, CONCLUSIONS AND WAY FORWARD

5.1 Summary of the Findings	102
5.2 Conclusions	106
5.3 Way Forward	108

Bibliography

Annexure

LIST OF TABLES

	Pages
Table 1	Status of Resources Mobilization59
Table 2	Status of Budgeted and Actual Deposit Collection.....61
Table 3	Statistical Analysis of the Budgeted Deposit and Actual Deposit.....63
Table 4	Correlation between Budgeted and Actual Deposit.....64
Table 5	Growth of Deposit of NIBL.....65
Table 6	Status of Resources Deployment of NIBL.....67
Table 7	Deployment Status of LABP.....68
Table 8	Statistical Analysis of the Budgeted and Actual LABP.....70
Table 9	Correlations between Budgeted and Actual LABP.....70
Table 10	Growth of LABP.....71
Table 11	Status of Actual Deposit vs. Actual LABP.....72
Table 12	Statistical Analysis of Actual Deposit and Actual LABP.....74
Table 13	Statistical Analysis of Actual Deposit and Actual LABP.....74
Table 14	Status of Budgeted and Actual Deployment of NLABP.....75
Table 15	Growth of L/C Business.....77
Table 16	Growth in Bank Guarantees.....79
Table 17	Income Trend of the Bank.....80
Table 18	Interest income to Actual LABP.....82
Table 19	Statistical Analysis of Interest income to Actual LABP.....83
Table 20	Status of Expenditure.....84
Table 21	Interest Expenses to Total Deposit (Cost of Deposit).....85
Table 22	Statistical Analysis of Interest Expenses to Total Deposit.....86
Table 23	Correlations between Interest Expenses to Total Deposit.....87
Table 24	Interest Spread of the Bank.....87
Table 25	Net Burden of the Bank89
Table 26	Net Profit Earned by the Bank.....90
Table 27	Calculation of Liquidity Ratio.....92
Table 28	Calculation of Employee productivity Ratio.....93
Table 29	Debt to Shareholders' Equity.....94

Table 30	Debt to Total Capital Ratio.....	95
Table 31	Calculation of Profitability Ratio.....	96
Table 32	Cash Flow Statement of the Bank.....	99

LIST OF FIGURES

		Pages
Figure 1	Status of Resources Mobilization.....	59
Figure 2	Bar Diagram of Deposit Collection.....	62
Figure 3	Scattered Diagram of Budgeted and Actual Deposit Collection.....	62
Figure 4	Line Figure of Growth of Deposit.....	65
Figure 5	Bar Diagram of Status of Resources Deployment of NIBL.....	67
Figure 6	Bar Diagram of Status of LABP.....	69
Figure 7	Scatter diagram of Status of LABP.....	69
Figure 8	Line Figure of Growth of LABP.....	71
Figure 9	Bar figure of LABP vs. Actual Deposit.....	73
Figure 10	Line Figure of LABP vs. Actual Deposit.....	73
Figure 11	Bar Diagram of Status of Budgeted and Actual Deployment of NLAB	75
Figure 12	Line Figure of Achievement of NLABP.....	76
Figure 13	Line figure of Growth of LC.....	78
Figure 14	Growth of Bank Guarantee.....	79
Figure 15	Income Trend of the Bank.....	81
Figure 16	Interest income to Actual LABP.....	82
Figure 17	Status of Expenditure.....	84
Figure 18	Interest Expenses to Total Deposit.....	86
Figure 19	Bar diagram of Interest Spread of the Bank.....	88
Figure 20	Line Figure of Interest Spread of the Bank.....	88
Figure 21	Line Figure of Net Burden of the Bank.....	90
Figure 22	Line Figure of Net Profit Earned by the Bank.....	91

ABBREVIATIONS

B/G	Bank Guarantee
BEP	Break Even Point
BSFL	Birgunj Sugar Factory Ltd
CD	Credit to Deposit
COD	Cost of Deposit
C-V-P	Cost Volume Profit
F/Y	Fiscal Year
ICC	International Chamber of Commerce
IDC	Industrial Development Centre
IMF	International Monetary Fund
L/C	Letter of Credit
LABP	Loan Advances and Bills Purchase
LDO	Loan, Discount and Overdraft
LTD	Long Term Debt
MBS	Master's in Business Studies
MBS	Mortgage Backed Securities
NB	Nepal Bangladesh Bank
NBL	Nepal Bank Limited
NGO	Non Governmental Organizations
NIBL	Nepal Investment Bank Ltd
NIDC	Nepal Industrial Development Corporation
NLABP	Non Loan Advances and Bills Purchase
NP	Net Profit
NRB	Nepal Rastra Bank
NTL	National Trading Ltd
NW	Net Worth
O/S	Outstanding
PP	Profit Planning

PPC	Profit Planning and Control
R&D	Research and Development
RBB	Rastriya Banijya Bank
ROA	Return on Assets
ROD	Return on Deposit
RUWDUC	Rural Women's Development and Unity Centre
SD	Standard Deviation
UCPDC	Uniform Custom and Practices of Documentary Credit
YOF	Yield on Fund